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Thoughts and Observations On The Market

February 17, 2014

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Is it really mid-February already? I guess time flies with QM and a little rate rally. It appears that most lenders are adjusting to the post ATR/QM world and the focus now is back to volume. While no one is complaining about a little winter MBS rally, recent applications are not up so much to expect a few months of matching 2013 levels. Is QM having negative impact? Too early to tell, but it's certainly not going to help drive applications. Is it the horrid weather? Good luck with that appraisal, open house or home inspection in Atlanta with 1" of snow. The search for volume never ends, but with forecasts less than promising and a rough Q4, many lenders are asking us "what's volume like for your other clients?" and "what are others doing to originate more volume?" The truth is, there are no simple answers - some lenders are off 50-60% from 2013 highs and others are actually growing. And while the quest for volume is valid and critical for all lenders, it's only half the battle.

Anyone heading to the TMBA later this month? Or the NJ MBA in March? If so, please reach out so we can schedule some time to meet.

We strive to keep you all well-informed, as we share our views. Staying a step ahead and running a tight operation are the keys to success in the mortgage banking world, and we are here to help bankers do so. We hope you find our newsletter useful, and if there is anything you want us to cover, [please let us know.](#)

Careful What You Wish For

So this has been the routine lately...

- Interest Rates rise
- Regulations stifle approvals
- Volume drops
- Cost to originate increase (note: if lenders even know their CTO)
- Margins tighten

- Net revenue drops

The result? Lenders scramble for ways to offset declining revenue; either improve execution or increase volume.

With the continuous re-organization of the industry and some consolidation, many firms are taking on new platforms, branches, or even entire companies. 2014 may turn out to be the year of acquisitions. This expansion is the key for any firm which has seen volume stabilize or grow in relation to 2013. While volume makes for a great headline, does it actually translate to success? Over the last few months we've seen some of these integrations be initially successful and others doomed from the start.

It may sound simple, but planning and foresight is essential to successfully acquiring these sources of volume. Most lenders, or at least every one we speak with are having challenges in integrating new platforms into the company. The struggle comes as implementing a wholesale or correspondent platform requires an investment in time and effort and new branches or acquisitions frequently involve making concessions to the corporate model. We have seen many instances where companies are allowed to come on board and not change a thing - the result is two operating operating models under one roof. Volume may be increasing but it is at the expense of consistency and efficiency. This growth in volume is often flying in the face of the goal of every business owners goal -scale and efficient operations.

The struggles can start with allowing a branch or firm to keep its operations staff intact as 'everyone' is essential. A new production source will estimate 2014 volume to at least meet, if not exceed 2013 - nobody is negotiating with depressed numbers - and who can blame them? Other lenders don't have to fight this battle, but the increased volume means opening another Ops center or decentralizing processing/underwriting. And even those who can bring on this volume without any personnel variances, some will have to work through LOS integrations, training, learning curves, or dare we say it, 'a dual-system model'. All of these decisions are being made in an effort to chase volume and companies think that these additions will increase the bottom line. **We recommend that lenders be careful! No model will allow for a plug and play boarding process. Costs will be higher than expected. Lead time to transition over to the new systems, business rules, and operational workflow will take longer than expected.** Based on experience, these decisions which look good at inception can and often will become a growing liability, particularly if there are heavy draws or salaries involved. **Volume may rise a bit, but so can costs, inefficiencies, turntimes, dedicated boarding efforts, and stress.**

matchbox promotes a few key themes with the most important being consistency. A lender's ability to succeed in this volatile market is based on their ability to create and support a consistent operations model. Where and why is consistency the key to success?

Compliance: Today more than ever, banks need a streamlined and consistent compliance policy. How are firms issuing

disclosures or documents out of two different systems on a regular basis? How are firms allowing originators to originate out of two different LOS's? Good luck effectively managing compliance and business rules out of two separate pieces of technology. And good luck explaining this rationale in an audit. Audits touch upon presenting your processes in an orderly and consistent fashion. Lenders are failing the first test when opening with "well, we originate out of Calyx Point and MortgageBuilder, and Avista."

Compensation: We are amazed that companies still are managing multiple compensation models and are ok with payroll taking 1-2 days each pay-cycle to reconcile. Comp plans should be consistent and easy to calculate and compute. If they're not, a lender likely has some fair lending and ATR/QM exposure. If a legend, ledger or spreadsheet is required in order to explain or manage a comp plan, there's likely a problem. We appreciate that recruiting is not easy and compensation is a very sensitive topic, but if a comp plan works for the company it should work for the new branch/employee. Be careful, that comp plan that you are being forced to match may be the one that is forcing the other company out.

Secondary: Lock Desks and Secondary Managers are under pressure to keep volume up and margins in-line. Their world is a constant juggling act of making exceptions and managing pricing in hopes of keeping the volume flowing and new (and old) sales groups happy. We are seeing that many firms are not consistent on their exception process and do not realize it until it is too late. One little exception each day may not seem like a lot, but 20-30 per month and the impact will be felt, especially as volume and margins have been contracting. We have yet to speak with a lender who reports and analyzes their exceptions or concessions on a regular basis.

Economies of Scale: The main reason a branch or group should want to come to another company is to take advantage of the new lenders infrastructure in the hopes of leveraging technology and resources to improve the origination process while reducing expenses. Too often we see lenders who are already over-staffed and allow the new branches ops staff to remain intact, creating a redundant department which already operates well at corporate. Addition by subtraction should be the rule here, but it seems like it is rarely employed. Addition by addition may not be the most effective model.

Third Party Vendors: A lender should have its own set of approved and vetted third party vendors with which it conducts business. There should be very few reasons that the new branch is allowed to maintain its existing relationships that are not the same or vetted by corporate. Speaking to compliance again, it does not present very well to auditors when a lender has multiple credit, title or AMC relationships.

Compliance has taken a big chunk of the profit pie over the last few years and while there are ways to improve this over time, it is a reality. Lenders are now looking to maintain volume and vet every business opportunity available. Negotiating is tough. The struggle some have experienced lately is underestimating the importance of a realistic, well devised boarding process. The

time, effort, costs and value of consistency and efficiency cannot be minimized. **Establishing a consistent operational chain is the key to successfully expanding and increasing volume and origination sources. If you have to say, "for these loans we do (a) and for those loans we do (b)" your ability to regain profitability will be extremely challenged.** If you feel you are struggling with integrating a new piece to your puzzle, contact matchbox immediately for a business and operational analysis.

About Us:

Matchbox is a collection of gritty industry veterans who decided to create a company aimed at helping mortgage companies ignite ideas that are outside the box to realize their true potential. We have years of real life, hands on experience in the business, and we want to offer our keen insight to others as they take on the challenges before them.

As individuals, we each contribute unique perspective and expertise. Collectively we provide a true roadmap to success, regardless of your current situation. Like any master craftsman, we are very passionate about our work and we approach each client as if your company were our own. In the end, we help you, be a better you.

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